

**COMMISSION ON THE NATIONAL GUARD
AND RESERVES**

HEARING ON RESOURCING AND READINESS

**DEPARTMENT OF DEFENSE POLICY, BUDGET,
AND PROGRAMMING OFFICIALS**

**FEATURED WITNESSES:
THE HONORABLE P. JACKSON BELL, DEPUTY UNDER SECRETARY OF
DEFENSE FOR LOGISTICS AND
MATERIEL READINESS**

**DAVE PATTERSON, PRINCIPAL DEPUTY UNDER SECRETARY OF
DEFENSE (COMPTROLLER)**

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ARNOLD PUNARO: Welcome to the 10th set of public hearings of the Independent Commission on the National Guard and Reserves. As most of you know, the Commission is chartered by Congress to identify and recommend changes in law and policy to ensure that the National Guard and Reserves are tasked, organized, trained, equipped, compensated, and supported to best meet the needs of the national security requirements for our nation now and in the future.

In our March 1 Report to the Congress, the Commission highlighted an area that we're going to focus in our – today's hearings, the equipment issues and particularly the shortfalls for the Reserve components and specifically the Army National Guard and the Army Reserve. As we all know, just kind of to summarize my opening statement, when it comes to equipment a lot of it relates to making sure everyone understands the requirements, having those requirements validated, then making sure the appropriate resources are put there. And I know this is an issue that both the Department of Defense and the Congress has spending considerable time on. In that regard, considerable – I guess you'd call it – get well funding or additional funding is programmed across the Future Years Defense Program to deal with these issues.

We – as those of us that have spent some time in the building, we also know that the Future Years Defense Plan has to be adjusted on a year to year basis to take into account changing priorities and changing circumstances and sometimes things that are in the early years of the FYDP that don't show up in the latter years of the FYDP. So that's another issue that has been brought to our attention – our previous hearings – about insufficient funding. So we're going to spend a – all day today delving into this area in greater detail.

Our first witnesses this morning are – we welcome Dave Patterson, the principal deputy under secretary of Defense comptroller and P. Jackson Bell – Jack Bell, deputy under secretary of Defense for Logistics and Material Readiness to the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics. They'll be followed by a panel of financial management and comptroller officials from the three military departments, and to close out today we have a panel of subject matter experts.

In terms of the two witnesses we have this morning, the Office of the Under Secretary of Defense Comptroller is responsible for resourcing issues from the inception of national strategy through the planning, programming, and budgeting process into actual execution of funds appropriated by Congress. The under secretary of Defense comptroller and her deputy are the chief financial officers for the Department and responsible for the budgeting, justification, and execution of hundreds and hundreds of billion of dollars in the annual appropriations and the large supplementals that have been a critical component of funding the war.

The comptroller shop, as most of our commissioners know, has always been considered one of the most professional, most competent outfits in the Department of Defense, and that's certainly the – it has been the case in the past and it's certainly the case today.

The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics is responsible to the secretary of Defense for the long-term equipping strategy of the total force, and that's a very, very busy office. And our witness today is extremely busy because they're dealing with the immediate issues – operational issues that certainly have to be taken care of, as well as these longer term issues, so that they handoff to people that come four, five and even ten years behind them a well planned, well-executed strategy because we all know in the equipping business – as some of our briefers last night from the three military departments say – there's a significant lag time between the time the money is actually even given to the contractors until the vehicles actually show up.

The witnesses are collectively making and implementing the resources and policies that will address many of the serious issues our commission is tackling in terms of the readiness and equipping of the components, the cost benefit analysis of the Reserve components, and implementing the concept of an operational Reserve as embraced by the Department in the 2005 Quadrennial Defense Review.

During the course of this hearing, we want to assess the magnitude of the current problem which basically has been inherited by this administration and previous administrations. As everybody knows in the Department of Defense, things don't happen overnight. A lot of these things take years and years and years to develop and they take a long time to fix, so we always have to make sure we – we keep our eye focused on the right priorities.

We've asked our witnesses to address any changes in DOD policies for prioritizing Reserve component requirements that are evident in current plans, programs, and budgets; whether continual reliance on an operational reserve is sustainable and feasible given current and future fiscal constraints; and what changes of law or policy are needing to ensure that the operational Reserve is sustainable and can meet the nation's national security needs now and in the future. So, we thank them for being here this morning for their great service to the nation.

I should add we – if you would pass back to the building, as I do for every DOD witness that comes over here, we appreciate the tremendous cooperation we continue to receive from the Department, particularly from both of your offices and particularly the Comptrollers Office. Early on, had to answer a stack of questions about funding and details and it was extremely helpful to us. I know that stuff is a giant pain to have to deal with because you're not just getting requests from commissions, but you're having to deal with the insatiable appetite of Congress for information but the information they provided to us really hit the mark and we look forward to continue to working there.

We also – and I tell our fellow commissioners, Dave Patterson – and certainly we’re not going to go any easy on him because of this, but we wouldn’t be in business today if it weren’t for him, because when we ran into a little glitch with our funding, it was – it was Dave that basically cut through the red tape in the Pentagon and ensured that we had the appropriate resources we needed to continue. So we appreciate that and hope we don’t have to come back to you in the future on that, but again, we appreciate all the help that we’re getting from the Department and look forward to continuing to work in a very cooperative way. And, as they know and as the Department knows, we don’t always agree, but they have been extremely cooperative nonetheless.

I also want to say, if you could also pass back on behalf of the Commission to Secretary Gates our tremendous appreciation for his decisions that are going to be announced this morning which he talked to the Congress about last week. As I understand it, Secretary Gates is – under – Assistant Secretary of Defense for Reserve Affairs Tom Hall is going to be publishing officially Secretary Gates’ decisions where he’s supporting 20 of the 23 recommendations that our Commission made which Secretary Gates briefed to the Congress last week.

And I would say that his decisions, working with General Pace and their key personnel – very positive, very decisive, and very timely. If anybody had told me that within two months of when a commission had issued a report the Department of Defense would have had it staffed, analyzed, everybody had their day in court, and the secretary would have made a decision, I would have been a very big skeptic because typically these things take not months but years. And so it’s very timely, very decisive on Secretary Gates’ part, and I believe the decisions by Secretary Gates will have a profound and positive impact on all of these issues, as I said, in a very positive way. So, we really appreciate his decisive action in that respect.

So, with that, we’ll turn it over to our witnesses and without objection your official statements will be put in the record and I’m going to defer to you all to decide who’s going to go first.

MR. : (Off mike.)

MR. PUNARO: Okay. All right, thank you.

P. JACKSON BELL: Thanks for that introduction. Chairman Punaro, distinguished members of the Commission, first of all, thank you for the opportunity to appear before you.

The studies you have underway on the roles and missions of the National Guard and the other Reserve components of our national armed forces is a matter of great importance. The Department appreciates your efforts on behalf of our citizen-soldiers, Marines, sailors, and airmen.

As we all know, with the possible exception of World War II, our nation has never depended more on our National Guard and Reserves. They're no longer in the standby mode. They're no longer in the standby mode and they stand shoulder-to-shoulder with our active duty forces fighting the Global War on Terror. They've been fully incorporated into the fighting force, and they are challenged in addition to that with continuing to meet their traditional civil support missions. We owe it to them and to our nation to see that they're properly equipped and funded.

Today, you'll hear from my colleagues, not only here with Dave Patterson, but on subsequent panels, about specifics of the president's budget request now before Congress. A request that in the words of Lieutenant General Steven Blum, the chief of the National Guard Bureau, in his testimony before the House and Senate committees said, quote, "includes an unprecedented commitment and investment by the Army to improve the equipment readiness of the Army National Guard." The president's budget also includes and provides for the additional funding needed for the Air National Guard so they can continue to be a full partner with the Air Force Total Force.

In the report you mentioned, Chairman Punaro, regarding in March 1st, you sighted three things that certainly we share your concerns about. One is that OPTEMPO of the Reserve component has increased at a far greater pace than resourcing. Second, and I quote, "the lack of sufficient and ready equipment is a problem common to the active and Reserve components, and that equipment readiness of the Army National Guard is unacceptable." And your third comment, "While the president seeks large increases in the FY '08 budget for National Guard equipment, historically projected funding increases have not always been carried through."

We are taking proactive steps to mitigate those concerns. The president has requested funding at significantly increased levels for the Reserves and National Guard, and they're indications that Congress will support this request. The funding will not cure equipment shortfalls and readiness overnight. As with rebuilding our active forces, a significant continuing investment is required to reach the necessary materiel readiness levels.

Due to our concerns at the Department of Defense about the schedule and funding requirements for re-equipping our National Guard and Reserve forces, I have recently requested from the service secretaries a report on all existing programs to achieve the established minimum requirement material readiness levels for all National Guard units in each state by May 31st. The same information has also been requested covering Reserve component units, including combat, combat support, and combat service support requirements.

These reports I have requested are to include a schedule by year and a table showing the requirements for individual types of equipment, the actual amount equipment on-hand, and the fill rate. It'll reflect any changes that have been made or changes that are being planned to these programs of record in support of cross-leveling requirements. The analysis will include the level of funding required for each unit, the

extent to which those funds are provided for in the FYDP, or whether they are unfunded operational requirements. The actual status of these units in the future will be monitored and determined through the Defense Readiness Reporting System.

This reporting and analysis requirement will provide visibility into the coordinated funding approach agreed to by the Department's senior leadership. We'll be able to monitor variances from these funding profiles while monitoring the effectiveness of the program through the Defense Readiness Reporting System.

These new reporting requirements will provide much needed visibility into the plan for meeting resource requirements and material readiness of the National Guard and Reserve components and will enable increased oversight to ensure that the material readiness requirements and improvements are being realized.

Mr. Chairman, members of the Commission, as you're well aware, the Reserves and National Guard have responded to every call made of our great nation whether in fight or in national disaster response. They're an essential piece of our total force. And these citizen soldiers, Marines, sailors and airmen deserve our respect, gratitude, and support. I am committed to working with the services to ensure that we meet their needs.

Thank you, again, for this opportunity to appear before you and I'll gladly take any questions you have.

MR. PUNARO: Thank you, Secretary Bell, and congratulations. That's a terrific new initiative that I think you've just described. It's really, really going to help in this whole equipping area.

Secretary Patterson?

DAVID PATTERSON: Members of the Commission, it's a privilege to be here. It's a privilege to represent the over 50,000 men and women who make up the accountants and budgeters and the people who provide for the National Guard and Reserves pay. It's an honor to represent them and it's – I really appreciate the opportunity to talk about this subject. It's important and it's timely.

As you so rightly pointed out, Chairman Punaro, the Secretary of Defense Gates did in fact at the Senate Appropriations Committee last week commit to proceed to implement in whole or substantially in part 20 of the 23 recommendations that this committee – or this commission put forth, and notably, he included your recommendation that the head of the National Guard Bureau would be a four-star rank.

With that in mind, I'd like to comment briefly on some of the issues that you provided us and your invitation, and then afterwards I'll happily respond to our questions.

With regard to policy development and guidance in the planning, programming, budgeting, and execution system, the secretary agreed that the Department of Defense

should validate, as appropriate, civil support requirements generated by the secretary of homeland security. And accordingly, the Department of Defense will continue to work collaboratively to ensure that adequate policies are in place to budget for military assistance to the civil authorities.

As for the process by which equipment and funding needs for the Guard and Reserve are defined, I would emphasize that those needs are presented, debated, validated, and prioritized in the very same way that the needs of other organization are.

All the Reserve components, including the National Guard, are integrated into the planning, programming and budgeting process, and those are done through the individual services.

The services rigorously prioritize their funding requirements from the highest to the lowest priority, and I would point out that the two highest priorities being those forces who are deploying or about to deploy. Each service component is given a portion of the service's top-line funding to budget for their programs such as pay, allowances, recruiting, training, and equipment.

After the component's budget has been formulated, it is forwarded first to the parent service so it can be integrated into the service's budget. The services' budgets are then reviewed, analyzed, and balanced across the Department's needs by the Office of the Secretary of Defense, and, finally, they're coordinated with Office of Management and Budget.

Therefore, the time – by the time the budget does in fact reach Congress, it has been thoroughly reviewed multiple times and at many levels, and represents the Department's best judgment as to what is needed to accomplish the mission.

Regarding affordability of the Reserve component, much has been said recently with regard to equipping and training shortfalls, particularly within the National Guard. Though like their active duty counterparts the Reserve components are unquestionably the best trained and best equipped forces in U.S. history, and I might add the world, there is still no doubt that the pace of our operations to date and the process of prioritization, the readiness of deploying units first, has caused a reduction in the readiness of non-deployed units. And it is for that reason that the Department continues to take steps to mitigate the stress on both the active duty forces and the Reserve components.

For example, in the FY 2008 Reserve component base budget now before Congress at \$43.1 billion that represents \$18.1 billion or 73 percent increase over the FY 2001 budget. It also represents a 67 percent – when compared, it's a 67 percent increase over the FY 2001 levels of the entire Department. So we have 73 percent increase for the Guard and Reserve compared with 67 percent for the overall Department's budget in FY 2008, so the Reserve components are being funded at an historically high rate.

The FY 2008 Global War on Terror Request, which accompanied the FY '08 base budget, included \$6.5 billion for funding Reserve component equipment, training, recruiting, and retention incentives. And of that \$6.5, \$4.9 billion was the amount specifically budgeted for equipping.

So we're working very hard to ensure that all of America's soldiers, sailors, airmen, and Marines are fully trained and equipped to successfully carry out a very demanding and challenging mission.

Well, finally, Mr. Chairman, what I'd like to say is that we have a variety of folks and many of them who track and budget the disbursements of the Department's overall budget, but I think it's important to step back a moment and put what we do in context. We're very proud of the excellent work that we do, but sometimes our efforts are overshadowed by the manifest problems and challenges that we meet every day. And all too often we forget the magnitude of the enterprise that we're talking about.

With 1.4 million active duty men and women, 654,000 civilians, 1.2 million Guardsmen and Reservists, and two million retirees and other beneficiaries, arguably the Department of Defense is the nation's largest and most complex enterprise. It's larger than Ford, General Motors, Exxon Mobil, and, in fact, larger than Wal-Mart.

Keeping track of all the transactions necessary to run this enormous organization is by no means no mean feat. Indeed, in 2006 alone, the Defense Finance and Accounting Agency has processed over 145 million pay transactions for nearly 6 million people, posted 57 million general ledger transactions, and managed the military and retirement health benefits funds worth \$255 billion. Additionally, we disbursed over \$424 billion in payments to contractors, vendors, and others which basically is accounted for in 878 Department of Defense appropriations. We take our work very seriously and we apply the same diligence and determination to the problems of the National Guard and Reserve components as we do to any other organization within the sprawling Department of Defense.

Mr. Chairman, the Department very much appreciates the seriousness and the dedication with which this Commission has examined the organization, training, equipping, compensation, and support of the National Guard and Reserve components, particularly as they relate to homeland missions and national security of our country. We share your concerns and are happy to work with you to improve the resources and capabilities of the National Guard and the Reserves.

Thank you, Mr. Chairman, and I'm ready for any of your questions.

MR. PUNARO: Great. Thank you and I know we'd like to identify ourselves with your comments about the professionalism and dedication of the comptroller organization and the acquisition organization. As I said at the outset, they represent two of the most professional, if not the most professional and competent, organizations that we have in our government. It's been historic; it continues to this day. They never get

the credit they deserve. People always focus on the problem areas and, as you said, this is a massive, very complex organization both in terms of the day-to-day things that finance has to do, as well as the very complex acquisitions. And we certainly appreciate it and understand it.

Let me make sure I understand your accounting. On your statement you talked about the 73 percent increase overall to the Reserve component funding compared to 2001 and the overall comparison to the DOD's budget. Does that include the cost of the Reserve and Guard attributable to the war? So when you say it's a 73 percent increase over the FY 2001 Reserve component funding levels, did those Reserve funding levels in 2001 – were those that had a lot of reservists activated and mobilized or were those just the normal?

MR. PATTERSON: That's the base budget.

MR. PUNARO: That's the base budget.

MR. PATTERSON: If you take the base budget plus the intervening supplementals, it's over 103 percent.

MR. PUNARO: Okay, so this is kind of just baseline to baseline, apples to apples?

MR. PATTERSON: That's correct, apples to apples.

MR. PUNARO: Well, that's a pretty remarkable figure, so we probably want to spend a little more time getting behind that.

The second thing, and this is an area that you've had – both had to deal with, but particularly you've had to deal with and the Department's done a tremendous amount of work in this area. Ken Krieg worked on it when he was PA&E before he fledged up to Acquisition and Technology; and it's the cost of military manpower, and particularly when you load all the fringe costs in. We've been trying to get and we've been working to try to get some kind of apples-to-apples comparison to the fully loaded cost of active duty personnel and the fully loaded cost of Guard and Reserve personnel.

Certainly, if they're called up and mobilized and deployed, we would argue, as I believe the Department would argue, that a Guard and Reserve should be paid the same as their active duty counterpart. So, yes, when they're called up and mobilized, they're going to cost as much as an active duty counterpart, except perhaps in the accrual area since there should not have to accrue their benefits at the same rate of somebody that's going to be on active duty for 20 years. But we've had a little bit more trouble getting to the bottom of the differential in a steady state – a non-mobilized state, et cetera.

We've seen some analysis that says it's more expensive to have things in the Guard and Reserve than the active. Now, that one I'd treat with a lot of healthy

skepticism. But one of the things when we had the ops deps up in our last hearing in – last month, they did not seem to have a very good appreciation for what the planning factors are when you budget for either active duty manpower, Guard, and Reserve.

As I recall vaguely, and Dave, too, is the keeper of the grail here, but you guys have to validate the numbers, five years ago, roughly, you were programming I think it was around \$60,000 per FTE for an active duty person. In other words, that would be for budget – budgeteer’s planning factor you would say, okay, for every 10,000 people it’s going to cost us \$600 million. Now, I think that planning factor is a lot more. Some people say it’s 140,000. Your former boss, Paul Wolfowitz, told me one day before he left the Pentagon, he thought it was closer to 160,000. What is the precise factor you all are using in the comptroller world for programming active duty personnel?

MR. PATTERSON: Mr. Chairman, we’re using \$119,000 for a – an infantry soldier that has not had any specific or unique training into a highly – a more skilled or other skilled jobs. We also basically budget \$35,000 for a reservist and \$33,000 for a guardsman.

MR. PUNARO: So, that would be apples to apples to apples?

MR. PATTERSON: Apples to apples to apples.

MR. PUNARO: Now, in that 119K, are there any fringe costs like their fair share of retirement accrual or healthcare accrual or subsidiaries, the commissary, that’s not factored into that or are they getting their fair share of that?

MR. PATTERSON: Yes, that’s correct. That is a fully burdened, non-mobilized

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MR. PUNARO: Fully burdened. Okay.

Now, what would attribute the potentially higher figures that your old boss, Paul Wolfowitz, might have been looking at?

MR. PATTERSON: Well, unfortunately, I was – I was there when he provided that number. We looked at an individual who was in theater and who had – was issued a – night vision goggles, which in itself would pop the number up considerably and other pieces of technical equipment that would be personal equipment that you would have in the field. And that would be my explanation of the difference.

MR. PUNARO: Yes, so that – that basically was kind of a go-to-war cost.

MR. PATTERSON: That’s correct.

MR. PUNARO: Which is not necessarily a steady state cost because – yes. So typically if you’re buying unit equipment, like you’re buying body armor and night vision

goggles for an infantry battalion, you're not going to attribute a per-soldier cost to any of that, correct?

MR. PATTERSON: That's correct.

MR. PUNARO: What you're saying is this is – when we start figuring the supplementals, we need to basically ask the Congress for the amount of money it costs us to have that soldier in Iraq and Afghanistan. That sounds like that's what that figure relates to.

MR. PATTERSON: That's correct.

MR. PUNARO: But in terms of these basic apples to apples to apples, that basically tells me that the Guard and Reserve still enjoy that substantial, at least monetary, differential that we historically have always said was a bargain for the taxpayer.

MR. PATTERSON: You're correct about that.

MR. PUNARO: You haven't seen any analysis in the Pentagon or by people hired by the Pentagon, such as the RAND Corporation, that would suggest otherwise, have you?

MR. PATTERSON: Well, of course and what I would say to that is that if – when you set your series of assumptions up, you will get the number that your assumptions lead you to. And, if you say in a total force, does it cost me more totally to have to pay the premium for a Reserve and Guard element? Well, of course. Of course it costs more to have people that you can call on – if they're not being used 100 percent of the time. But it's the part of the time that you really need them that more than makes up for the premium that you've paid when they're non-mobilized.

MR. PUNARO: But by premium, what you're saying is we don't need them every day.

MR. PATTERSON: Absolutely.

MR. PUNARO: But when we – but it would be cheaper – it is more cost effective for the taxpayer to pay that insurance premium than to have that same capacity on fulltime active duty every day, correct?

MR. PATTERSON: Absolutely.

MR. PUNARO: So the differential there is the differential you described in the programming figures.

MR. PATTERSON: That's correct.

MR. PUNARO: So 119K and then 35K and 33K.

MR. PATTERSON: Yes, sir.

MR. PUNARO: Yes, so – so you haven't seen anything that changes your mind that that differential still exists. The question is how much insurance do you want to buy?

MR. PATTERSON: That's correct.

MR. PUNARO: Right. Now, for example, the increase to the active duty Army, the active duty end strength increase and all of the equipping and training that goes with that, does the Department have a – I've heard that that whole package is about \$100 billion to recruit, train, build up, and – and then it's got a recurring cost of about \$20 billion. Does that sound about right?

MR. PATTERSON: I'll have to get back to you. I'm sure we have more precise – but I – let me get back to you with it precisely – I'd rather have you –

MR. PUNARO: Okay. But it's not an inexpensive figure.

MR. PATTERSON: It's not an inexpensive figure.

MR. PUNARO: So, when we're saying we're buying that because we want it on active duty right now, that's quite expensive.

MR. PATTERSON: Exactly.

MR. PUNARO: Because you not only have to pay the people, you've got to recruit them, you've got to train them, you've got to house them, you've got to equip them, et cetera. You've got to build the new brigades that they're going to go, into things like that.

MR. PATTERSON: That's correct.

MR. PUNARO: Yes. Okay. All right. My last question is really talking about the process a little bit from your perspective. Then, I've got one question for Secretary Bell, is – you pointed out that the Secretary Gates has a – is supporting the Commission's recommendation that the Department of Homeland Security should develop requirements for civil support. We also recommended, and he also supported this, that the Northern Command should be the advocate in their integrated priority list, just like they're for – all other combatant commanders are for requirements in their AOR for civil support requirements. Now, the key is – all it said – what we said was they should generate requirements. That doesn't mean every requirement they generate is valid, and it doesn't mean that if the Department said it is a valid requirement it may not necessarily compete

successfully in the resource and budgeting phase. What you pointed out is what the Commission said, right now, because we don't know whether they're valid requirements or not, people can assert that they have requirements that are quite large and we don't know whether they're valid or not. So, your point is that these would be treated just the same as every other requirement. They're not going to be in a privileged position, but they're not going to be in an unprivileged position either. Is that correct?

MR. PATTERSON: That's correct. That's my understanding.

MR. PUNARO: So you – you all work closely is it – the way I believe I heard Secretary Gates describe it and I believe you describe it, you all will work collaboratively with the Department of Homeland Security in terms of helping them identify the requirements, but then it will come over to the Department to put into the validation phase, is that correct?

MR. PATTERSON: That's correct.

MR. PUNARO: And, then it'll just go into the normal planning, programming, and budgeting phase.

MR. PATTERSON: Exactly.

MR. PUNARO: Right.

MR. PATTERSON: It's my understanding. Yes, sir.

MR. PUNARO: Right. And now, when you take those requirements and switch over into your world, in – for example, let's say, hypothetically, Department of Homeland Security says, "We have these 15 planning scenarios that we use to determine how to respond to natural and manmade emergencies here in this country." You saw the report of the Indiana National Guard working with DHS and others on testing out some of those scenarios. And let's say, hypothetically, they identified we need some chemical, biological, radiological equipment – some sensors, some detectors, some command and control, some decontamination equipment, and they send that to the Department of Defense. In your world, now the things that come over into the acquisition, how do you envision those being validated and basically programmed and budgeted for?

MR. BELL: Thank you for the question. When the requirements have been validated, they then have to be funded, of course and, in many cases, if it's crisis management situation that involves reprogramming of funding. But, the constraint there, once the requirement has been validated, is it goes in the mix for prioritization with other requirements. We have been attentive to that and, in fact, on the number of the exercise, as a result of the exercises, we have been actually looking more closely at how do we respond to the natural disaster equations, and those are getting a higher priority as we look at the competing requirements, at a minimum, in the various contingency plans that

we develop. There are cross leveling plans so that equipment that is committed to a certain mission can be reassigned and repositioned to support a natural disaster.

MR. PUNARO: Right. And there also is – a lot of people refer to it as dual use equipment – a lot of equipment that is useful in the Guard's overseas mission that's extremely useful to governors and I think this report that you've just asked the services to do – I think is going to help tremendously getting an inventory of what's out there, particularly as these new requirements start to roll in from DHS, to give you a feel for what you have and what you don't have and what you need to reprioritize. Is that report going to help with those kinds of situations as well?

MR. BELL: It'll be very helpful because it will identify by type of equipment what the field (rights ?) going to be. This will enable both the governors for the National Guard units, as well as Northern Command and DHS, to assess the adequacy of the non-combat equipment, in other words, the non-weapon systems that are – that have a vital role in terms of natural disaster response, whether it's generators or earth moving equipment or cranes. That's the kind of equipment – there's a particular sensitivity on the part of the governors and the members of Congress about their availability within the National Guard units.

MR. PUNARO: I believe what I'm hearing from both of you here this morning is that the Department – I certainly think it's reflected in the Secretary Gates' decision – has an open mind towards the prioritization of validated requirements that aren't necessarily strictly related to fighting a war overseas. That, if there's something that the Guard and Reserve or even active component needs to basically help with the homeland defense mission, that the Department is open minded about as long as it comes in through the normal process – which we recommend it should – open minded to basically beginning to buy things and fund things that aren't necessarily 100 percent – maybe would be 0 percent useful in Iraq and Afghanistan. Or is that going too far?

MR. BELL: The question is, of course, whether the equipment is in a contingency mode, as you would say, for chemical suits for the troops now. To some extent, those are available in case we encounter that kind of a situation in Iraq and Afghanistan. But, a significant part of that is also in a reserve and available for cross leveling. We are at a point as we have been – we are at a point where all of the services are having to do active cross leveling of equipment to meet various requirements. So, that kind of cross leveling is, in fact part, of the contingency planning process now.

MR. PUNARO: Secretary Patterson, you want to take that one on? It's basically – the thrust of it is, if there is a validated requirement – to be validated, the Department would have to agree that it's validated, it came over from DHS – that really is, say, 80 percent domestic and 20 percent overseas. Typically, the Department's position is it's got to first cross the threshold whether it's 100 percent war-fighting requirement or we don't fund it. Is there a change of approach here?

MR. PATTERSON: I'd say with the – my understanding of what the secretary has said is that we'd have to reevaluate how we look at those things.

MR. PUNARO: Right.

MR. PATTERSON: If it's a valid requirement and it competes effectively with other requirements and it is in the mix, then we'd have to look at it very seriously and –

MR. PUNARO: Great. I think that's all anyone could ask. Yes. Okay. My time is up. Commissioner McKinnon.

DAN MCKINNON: (Off mike.) We're glad to have both of you here and, Mr. Patterson, I hope you realize what an impact you had allowing us to be funded, that –

MR. PATTERSON: Everybody likes to be paid. (Laughter.)

MR. MCKINNON: Well, I don't know. The other side of that is you're here today too to answer these questions, so it might be a – but as the one Commission report, at least the March 1st one, where the DOD had some tremendous response and Ike Skelton over at the House, put in the Defense authorization bill, many of the recommendations we suggested, so this is one report that's not gathering dust.

But, along the line you were talking about a little bit ago – you talked about the integrated priority list, in essence, is what you're talking about, about funding, how the combatant commands come up with the requests and it works its way through the system. How is it determined – if they think it's worthwhile that somebody pairs it down and eventually when he get it to the budget then I assume you send it over to OMB and you work it all through the system that way. What if you don't have enough money to do the job that they feel is necessary? How do you make that determination?

MR. PATTERSON: How do you establish the priorities in competing with competing resources? Well, I can tell you that we have a process that we go through and I sit on a Three-Star board that meets routinely every week, sometimes twice a week, and we do a first vetting of the resources necessary to meet the demands of the COCOMs. And where there are two COCOMs or there are other priorities that compete, we establish a list, in priority order, and provide it to the Deputies Advisory Working Group, better known as the DWAG; and on that panel sits the vice chiefs and senior leaders of the services and other agencies. They, then, will look at what the priorities are and the deputy secretary of Defense, when there is a dispute, will resolve the dispute.

MR. MCKINNON: Okay, what you get – General Schoomaker was here previously on some testimony and said, before 9/11, they were about \$15 billion short. We obviously took a holiday during the '90s and downsized everything but didn't provide the necessary money for the equipping, at least what has turned out to be a real dearth of equipment, because you've got all the stuff in the field but you don't have what – the stuff you need to train on, really, at least in some of the bases we've looked at. So,

where do you get to the point where, if you're spending about what, 3.8 percent of GDP or somewhere in that area, what should you be spending to do the job rather than worrying about financial constraints? What should be GDP for National Defense? If the 3.8 isn't cutting it, where should we be?

MR. PATTERSON: Well, if you look historically –

MR. MCKINNON: And it applies to both of you because it – (inaudible) – to what you're going to have when your troops are out there working.

MR. PATTERSON: The lowest percentage of GDP that was spent on Defense was in 1999 and in 2001, and the highest, obviously, was in World War II. We are right now in the '08 budget about 4.0, a little less, but I've heard the average in the last 10 years to be somewhere closer to 5 percent of GDP – would be the appropriate percentage. To suggest how many angels sit on the head of the pin is a little bit more daunting a task than I'm ready to take on here but smarter people than I have said that the average being 5.4 in the last 10 years, then 5 is about right.

MR. MCKINNON: Do you think that's where we should be today to be able to do the job right, then?

MR. PATTERSON: I think that would significantly increase the ability for us to work the number of issues that we have before us.

MR. MCKINNON: Okay, and then there's talk about the GAO – points out that to be 80 to 90 percent funded. We've got wait to about 2019. Other reports you read says by, maybe that time period, that the whole budget will be absorbed by entitlements, social security, welfare, all this kind of things, so where would the money come from to get you whole by that period of time, by waiting that long? I mean, there's a real concern here about are we – do we have the ability to handle this threat down the road, and there's a bunch more threats besides Iraq and Afghanistan.

MR. PATTERSON: Well, I certainly agree with you, in fact, to your point. The healthcare system alone for the Department of Defense is somewhere close to \$39 billion in '08. It was \$39.4 last year. We anticipate if it continues at its current trend that, in 2015, you'll have a healthcare program that is close to \$64 billion. It might be interesting as a comparison that the entire defense budget for the country of Germany is less than \$38 billion.

MR. MCKINNON: So, what do we do to resolve the – I mean, where are we going to go as a country from the national defense standpoint if we're all absorbing – I mean, I'm having a hard – are we spending enough money now when we have an opportunity, when you don't have the inflationary factors and all these budget factors to come back to haunt us. How do you make the argument today that we should be doing more than just what – a 67 percent or something increase? It's just – that's budget figure. Is it a real need figure is where – and Secretary Bell also is affected because it's

going to affect what you have for equipment to send out to the troops. What do we do about that? I mean, this is a serious issue?

MR. BELL: One of the reasons that I've asked the service secretaries for this report, is it provides visibility into what the timescale is given other budget constraints as to how we approach equipping the National Guard and Reserve units. Having that information available, as well as the requirements for equipping the active component forces, should allow both the president and Congress to make those kinds of decisions about how much money is needed in order to reequip the force over what timetable. If the timetable that we have in our programs of record are not adequately funded, that will be identified and, therefore, we're in a much better position to understand where we are and how well we're on track to meeting that funding requirement. I think it's easier to understand and make decision about what level you fund if you have better data visibility on what the consequences are of funding at the levels you're at.

MR. MCKINNON: And how do you communicate that to the – how's DOD communicating – I mean, is there some kind of personal way where you can really get to the Congress to say and say, hey, fellows, this is what we really need.

MR. PATTERSON: Absolutely. Immediately after the budget is provided to the Congress on the first Monday in February, you start the hearings and the service secretaries and service chiefs provide their posture statements. They work diligently with the principals and staff members of Congress to explain in very excruciating detail why it is that we need what we've asked for. But, I think that prior to that time is that – a good understanding of how do we get to the requirement that we're actually requesting. And, we have streamlined this planning and programming process. We have strategic planning guidance and joint planning guidance, and those kinds of documents that give you an overall guidance as to where the Department needs to go. It is from that guidance that you then establish the requirements that are necessary. And then the services, in their train, organize, and equip, responsibilities fill out and as best they can to meet the requirements we then costed out and provide to Congress a budget that meets the requirements within the top line established by the administration.

MR. MCKINNON: I appreciate – my time is up, Mr. Chairman, there are (certainly ?) a lot more things.

MR. PUNARO: Thank you. Commissioner Ball.

Oh, the former secretary of the Navy, in Marine Corps parlance, is UA, so we will run him on the unit diary as set, so – Commissioner Dawson.

RHETT DAWSON: Thank you, Mr. Chairman. Welcome. Sorry to be a little late to hear your opening remarks. As you look at the budget from an overall sense, what are the budget drivers for the Reserve and Guard component? What are the principle drivers?

MR. PATTERSON: I would say that it would be equipping and training and equipping and training principally for those Guard and Reserve components that are getting ready to be deployed. That would be the most demanding in terms of the budget.

MR. DAWSON: How does that differ from the active component in terms of what the overall drivers are?

MR. PATTERSON: They're similar if not the same.

MR. DAWSON: So, it's not healthcare. It's not MILCON, it's not –

MR. PATTERSON: The instant driver is training and equipment.

MR. DAWSON: And, have you made any cost comparisons between active and Reserve component? For example, could you readily tell me or tell the Commission what the relative costs are of a deployed active duty individual versus a deployed Reserve individual, versus a Reserve individual who is not deployed, versus one who would be deployed.

MR. PATTERSON: Let me speak, if I may, to the latter part of your question first. The Army has done extensive work in trying to determine the exact cost of a soldier, and they have determined that a fully burdened soldier who was in the Guard Reserve or active duty, that is a person – infantry as the base line, that an active duty costs \$119,000, that a Reserve component – a reservist is about \$35,000, and a guardsman is \$33,000. Now, as you deploy those folks overseas, give them special equipment – individual equipment, that cost will go up corresponding to the level of technology that you provide them, so it's very difficult to say what exactly a soldier in the field will cost you. Chairman Punaro has offered up \$160,000 as the top line, but it's going to be somewhere between that depending on how you equip that individual. And – but, if you want to compare a mobilized reservist with a active duty, they're roughly the same.

MR. BELL: If I could add one comment here, it's important to note that for an identical mission, in an identical area, the equipping standards are the same, so the cost differential relates to other factors than how we equip them when we deploy them.

MR. DAWSON: Have you done studies on this that would help give the Commission and it's staff some better information about – more details about how you thought about this or what the relative costs are?

MR. PATTERSON: We have, in fact, done analysis of the costs that are associated with individual soldiers and units, and we would be pleased to provide the Commission with those numbers.

MR. DAWSON: Yes, excuse me if it's already been provided, I apologize.

MR. PATTERSON: I don't believe it has, but we'll be happy to do that, sir.

MR. DAWSON: Okay. Could you just – because I was – you surprised me by coming at me with fingers – information at your fingertips. What were those cost figures?

MR. PATTERSON: I'll try not to do that, ever again. (Laughter).

MR. DAWSON: Don't surprise me? You can surprise me. That's okay.

MR. PATTERSON: For an active duty soldier, an infantry soldier fully burdened is \$119,000; for a non-mobilized reservist, \$35,000; for a non-mobilized National Guard soldier, it's \$33,000 of similar training and skills.

MR. DAWSON: Now, those are all 11 Bravos or whatever they call it – whatever the Army used to call them, in all infantry.

MR. PATTERSON: Right.

MR. DAWSON: Have you taken excursion and done what costs are, for example, for pilots?

MR. PATTERSON: I'm sure that that is available. We did not, in preparation for this, but I will, again, be happy to provide that. I will suggest to you that, depending on how much training each pilot has to go through to be fully concurrent in an aircraft, it's going to vary, obviously, with the aircraft, but I think that a good figure is close to a million dollars.

MR. DAWSON: For the basic –

MR. PATTERSON: – to get a pilot from pilot training into his first unit as a qualified and – qualified participant in the unit squadron or –

MR. DAWSON: Okay. I'm kind of changing direction here. Do you – have you had a chance to look at the – Secretary Gates decision to implement our recommendations?

MR. PATTERSON: Yes, sir.

MR. DAWSON: And have you had an opportunity to specifically assess what the budget impact would be of the implementation of those –

MR. PATTERSON: No, we haven't yet, but in his memorandum, he specifically directs the comptroller to work with the programmers to determine what the requirements are and how much they will cost and as they're integrated into the budget.

MR. DAWSON: Are there timelines for coming to that conclusion?

MR. PATTERSON: There are timelines for the budget, programming, and planning process and –

MR. DAWSON: In general. I meant generally. I meant more specifically.

MR. PATTERSON: More specifically. He gave us the charge. He gave us the memorandum and we're moving out to accomplish – implement what he's asked for. The first POM submission, or program objective memorandum, that the services provide to us will be provided on 1 August with refinement through 15 August. We will then go through a process whereby we establish what we will look at as a draft budget. It used to be a budget estimate submission, and we'll work with the Office of Management and Budget to come up with the president's budget mid-December. But, it would our intention to begin the process, to integrate the requirements for homeland defense into that.

MR. DAWSON: Mr. Chairman, I know my time has expired, can I just –

MR. PUNARO: (Off mike.)

MR. DAWSON: - just one quick question and this is, again, changing direction. But, conceptually, because the – one of the new directions or new approaches that the secretary seems to be suggesting is trying to address the state funding questions and – for state missions and natural disasters. Do you think that services are ready and able to do that kind of – address those kinds of funding issues?

MR. PATTERSON: I think they're ready and able to address those kinds of issues. How well we address it will be a matter of understanding what we're about and how to do that.

MR. DAWSON: Again, when do you think we'll know – be able to evaluate that. Is this mid-August as I gathered from your previous answer?

MR. PATTERSON: I think that that's fair. That would be my – that would be my guess.

MR. DAWSON: Thank you, Mr. Chairman.

MR. PUNARO: Commissioner Eckles.

LARRY ECKLES: Good morning, and thank you for joining us this morning. We keep hearing that the Reserve components are now operational instead of strategic and will be for the foreseeable future. In your worlds, how are the policies in budget processes changing to reflect the long-term implications of institutionalizing an operational Reserve?

MR. BELL: I'll take the first part of that. Obviously, the way we are currently deployed for joint war fighting, the equipping side of the equation for what you've described for the National Guard units and the Reserves is to ensure that they have the adequate equipment for the mission, and as I said for an identical mission that would be performed by a National Guard unit or for an active component, the equipping standard would be the same, so, from a strategic point of view, moving forward into changing and modifying their missions towards more of an operational concept where the rotation program is a part of that. The way we're equipping all of our forces now is a function, as Dave Patterson said, if equipping the force that is deployed, equipping the force that is deploying, and equipping the force that is the next to deployed. We are not in an equipment position at this point in time to fully equip all of the units when they're on a stand down mode back within the continental U.S.

MR. PATTERSON: If I can just elaborate on that and tell you that now we fund and ask for budget authority for the incremental cost above what we have in the base budget to fund the War on Terror. As you become more and more operational, that incremental cost will migrate more and more into the base budget. As we determine that those requirements meet the priorities and they compete. So I come from a world where we have an operational relationship – where we had an operational relationship with the Reserves and the Reserve associate program at the various wings, and, so, it was a perfectly reasonable world for me to have 33 percent of all of the missions being flown by the reservists. It was operational virtually all of the time. The Army on the other hand, has – has done this as a matter of extremist. We are at war and we have mobilized the Guard. And we fund them incrementally and that has been where the Army has been on us.

MR. ECKLES: Thank you. That's all I have, Mr. Chairman.

MR. PUNARO: Thank you.

Commissioner Lewis.

PATRICIA LEWIS: Good morning, and welcome. I'm going to get back, just for one more second if I could, to the numbers that you've provided us for the fully loaded cost for active, Reserve and guardsmen. And, I just want to double check. The recent enhancements to the healthcare benefit are included in your cost for Guard and Reserve of 35 and 33?

MR. PATTERSON: The most recent NDAA will take effect in October, but the Tricare for reservists is included, and as you know that when you mobilize, Tricare is available to you as a mobilized reservist if you choose to take advantage of it.

MS. LEWIS: So, that – those numbers do include healthcare and retirement.

MR. PATTERSON: That's correct.

MS. LEWIS: Thank you. Part of our mandate for our Commission is to require the adequacy – to assess the adequacy of funding received by the Reserve components and we're having to go to a number of multiple sources to get data and information related to active and Reserve components. And, we've looked at data from GAO and CBO and DOD documents and even the budget tools and reports that exist like P1 don't have a lot of specific detail related to the Reserve components. What – how would you direct us to – what data would you direct us to look at to cover that portion of our mandate on identifying Reserve cost?

MR. PATTERSON: Well, I think, first of all, I would like to explain that the PIRs, as you know, are planning documents. Those are the documents that identify what we have planned to put into the budget in the current year of execution as well as the out-years. What I would recommend to you, and I do this with a certain amount of trepidation, is to put your specific questions to us and we will have the appropriate agency get to you with the answers.

MS. LEWIS: Okay. And, I have one additional question related to Reserve component representation in the programming and budgeting process. And for the most part the services have informed us that – and the Reserve components have agreed that they're well represented in that process, but there's two portions of the process where they're less well represented and that's new program starts and then later decisions towards the end of the programming and budgeting process. Could you just comment on how the Reserve components requirements during those phases are addressed?

MR. PATTERSON: As a total force, the Reserves and Guard are addressed at the very beginning. When you have the concept development phase up through the milestone A, and then decisions are made in terms of what the requirements are and how they're satisfied with the capability that's been proposed. In terms of numbers, those kinds of determinations are done at the service level and their train, organize, and equip responsibilities, and I would defer to the services to be more specific about the way in which they involve reserve requirements into their deliberations.

MS. LEWIS: Okay.

MR. PATTERSON: I've been speaking out of my lane.

MS. LEWIS: Okay, thank you.

That's all Mr. Chairman.

MR. PUNARO: Commissioner Sherrard.

JAMES SHERRARD: Good morning, and thank you very much for coming here. I just need – a couple of questions that I have related to funding for equipment. Over and over during our various deliberations around the country, particularly from the Army

Reserve components, there's been an outcry that there's a need for separate equipment funding line, for lack of a better word – model something along the line of that, a special ops command they ask. And, I guess, my question to each of you would be why or why should we not have such a special funding model after the SOCOM model for Reserve component equipment funding?

MR. PATTERSON: The idea – and I was around when Congressman (Hagel ?) and Daniels established the MFP 11 and at the time, I think there was a – and I hate to say this – at the time I think there was a certain amount of relief in the institutional Air Force particularly and the Army as well. I look at that a little bit differently. I saw that as a failure on the part of the institutional military to adequately address the needs of an arguably unique unit and instead of – instead of requirements.

That decision was based on an operational mission that was clearly something apart from what the conventional military was doing and it seemed right. I mean, if that was what you were going to do, it seemed like the right idea. I'm not sure that having a SOCOM-like special appropriations for the Guard and Reserve would, in fact, get at the issue, I think, that this Commission is struggling and that is how do you track and how do you identify pieces of equipment from conception to firing line, if you will. I'm not sure that that will do that because you – we – I'll tell you what. It would be very – much better for us because we would be able to book keep much more easily. But I'm just not sure that it would get from where you want to be to knowing precisely where things are or predicting where things will go, because it would still be subject to the same apportionment, vetting, requirements prioritization than any other piece of equipment is subject to and we do this with SOCOM today.

MR. BELL: I think what you hearing is one of these situations where it's on the one hand and on the other hand. On the one hand, it would be comforting to know that the funding was dedicated to that proposition. On the other hand, with an overall shortage of funding for the strategic mission of equipping all the forces, it would deprive the Department of Defense of a certain flexibility that's needed to respond to changing requirements, and I think that's really the dilemma that we face in looking at that. Obviously, with the dynamics we've been involved in in the last several years with GWOT, there's a high priority attached to having that funding flexibility in order to meet the requirements of the current crisis.

MR. SHERRARD: And, just one – one closing question. In hearing your report earlier that you've asked for the information relative to needs of the various – throughout the services, can either of you offer – for a lack of a better word, I'm going to say ideas toward increasing the transparency – and I don't want to use the word flexibility, but I'll use it – the flexibility within the process that we have for better visibility of exactly where we stand of all components, active and Reserve components, in terms of their equipping and the funding of that equipping and the things that happen in just the due course of time, whether requirements come about. So, who has the say as to what will be taken or what will not be taken?

MR. BELL: That's a precise focus of the request we've made of the services. Having the data visibility about what is happening with that equipping – those equipping programs for the National Guard and Reserve units, over time, will enable us in tracking through the readiness reporting system, will enable us to see how well we are progressing in all of those unit components on filling the mission requirements in terms of the materiel readiness. We believe – and the reason we had this request, and, by the way, I discussed this with each of the secretaries before we formally made the request, is the belief that the transparency and the visibility into the status and the plan at that detail level will be helpful.

MR. PATTERSON: And, I can tell you that from our point of view the initiative that Secretary Bell has put on the table will be very helpful for us and – anything that will help us fill in fields in our spreadsheet with certain amount of fidelity is always welcome, and I applaud Secretary Bell for putting that on the table. It was sorely needed and he stepped up to that.

I would like to make one clarification. My brain behind me just gave me a nudge here and the 35 to 33,000 figure are for reservists and guardsmen who are in training status and in that training status, they don't get Tricare and – but however, it does include the medical healthcare accrual payments. So, I just wanted to ensure that I wasn't leading you astray.

MS. LEWIS: Thank you for the clarification.

MR. SHERRARD: Thank you, Mr. Chairman. Thank you, gentlemen, very much.

MR. PUNARO: Before we go to a second round, if there are commissioners that haven't had questions – that have questions, I'd like to ask them now.

Commissioner Stump.

GORDON STUMP: Yes, I'd like to – to get you to discuss a little bit – PDM III. A little history, in 2005 – yes, that was a disaster, but I'd quite like to have you discuss it with us. A (listed?) issue, PDM 753, provided the Army the \$25 billion or \$5 billion per year in FY '07 to ('11 ?) to help fund the Army modular force conversion cost. The agreement required the Army to finance half with internal funds. The Army stated it would achieve this savings to improve business practices with the use of Lean and Six Sigma process improvement tools. The other \$12.5 billion would be paid from outside the Army TOA.

Since the release of PD 753, OSD was unable to identify alternate funding sources and left this bill as a due out or a wedge in the wedge account. As we approach the presidential budgets submission, this wedge had to be cleared prior to budget submission, therefore, we end up with PDM III as, which we all know, did not work out all that well. But in PDM III, before I even get into why the Guard was not brought into this process,

there were some – what we believe are some real errors in the calculations in the budget submission. The end strength for FY '08 to '11 was reduced by 17,000 per year and the funding was inequitably decremented the equivalent of 26,000 per year which leaves a bigger hole to the budget. Mobilization offsets, the PDM exasperated the level of funding risk taken in accounts like AT, IDT, and fulltime support which assumed that the number of soldiers that we'd mobilize in the next two or three years will be 70,000 per year, which we thought was a little bit high.

Family programs were realized as 15 percent reduction because of 4.8 percent reduction in force structure. Funding reductions taken in PDM III were priced at the fully burdened rate based on model driven requirements instead of reduced by what the ANG, Army National Guard accounts, were actually funded at, so, again, a bigger decrement.

Per capita funding reductions reduced our homeland defense capabilities and ability to improve readiness levels because of funding reductions are exceeding our projected end strength and efficiencies. Realizing the savings of 2.5 billion per year Army-wide, or 280,000 per year was for – transforming business practice remained at a goal that we have not yet achieved.

So in addition, it has been proven that taking the money out for the 17,000 decrement, we would have been in real deep doo-doo had Congress not put it back in because the Army Guard is at 3.50 now and even going further. But there are some other things in here that appear that it was a way to squeeze more money out of the Army National Guard which weren't valid. Now, was that done by the Army or was it done by the Budget Office or where do these numbers come from?

MR. PATTERSON: I would hold the Army question for Nelson Ford when he comes, but let me – but let me address this because, I think, this is an overall worthy question, and it has to do with the process that we have and it was in fact – it was a program decision – our program budget decision PBD 753 that basically established where – how we were going to go and what we thought the future portended for us.

It wasn't that way, as you know. We ended up taking, in '06 and '07, – out of hide, we went from the original number of guardsmen to 350, we're now at 351, that their recruiting and retention has been very high, and is sustained. But the point I want to make is that we have a system that recognizes error and corrects it within the set of priorities that we have and addresses requirements that have been validated through the services. We recognize the fact that we had under-funded and inappropriately took money out of the Guard. That money was reprogrammed by the Army and was put back to satisfy the day-to-day needs of the Guard throughout '07. You're correct. We had encouragement from the Congress, but nonetheless, I think it's for the Army's credit that they stepped up to that and funded it within their top line.

MR. STUMP: Well, they had to fund it because Congress went to them and said "look, guys, this isn't right. I've got this letter from 85 senators and all the governors saying hey, you're going to have to do this." What we're trying to get at is – is how can

we prevent – this obviously was a mistake and, in this case, the Guard was correct, because, had they not gone to Congress and got these money in, we would have been in bigger trouble than we are now because we'd of had the troops. What we would like to do is get at some – what is the process to get some more Guard voice at the table to prevent a disaster from – like this happening.

The same thing happened in '92 with Cheney and Powell when they tried to take the Guard end strength down to 320 – 327 from 457 at that time, and, again, had to go back to Congress to do that. So, we're trying to look at where in the process did this thing fail, because this thing, all of a sudden, hit the – (inaudible) – general right between the eyes and they had no idea it was coming.

MR. PATTERSON: I don't know whether I can suade your concern, but let me tell you that the system and process that we have in being today is far more responsive, it's more timely, and takes issues to the highest levels more quickly than we have in the past. The use of the Deputies Advisory Working Group that meets every week and oftentimes twice deals with these problems on a very timely basis.

In fact, I'm kind of surprised that things get teed up as quickly as they do. But I would offer to you that we took a lesson from that mistake and we put into being the process of the DAWG and the Three-Star Committee and the programming – the programmers throughout the services have – are trying not to make that mistake again, and if there are competing priorities and you do not have the top line to fund it, you raise it quickly to people who can make a redistribution or reprogramming of money to solve the problem.

MR. STUMP: Okay, thank you.

STANTON THOMPSON: I've got one

MR. PUNARO: Commissioner Stan Thompson.

MR. THOMPSON: We'll go to Mr. Bell – to you on equipment. Yesterday, we had the Army talking to us about the equipment within the Reserve component and one of the focuses of one of the comments was the inventory of two and half ton trucks within the National Guard and the Army Reserve inventory and the need to migrate those trucks into bone yards and replace them with more modern equipment.

Now, going back to competing resources, traditionally the Reserve component gets, for no other word, hand-me-down stuff from the active component. Now, what has changed where modern equipment is shared by the active and Reserve component? What culturally has changed within the thinking and the processes where hand-me-down equipment is no longer the standard operating procedure for the Reserve component?

MR. BELL: Thank you. Several things have changed.

One is the fact that we found under GWOT that the requirements for equipment for troops deployed forward are sometimes unique. Certainly, what we discovered in our deployments in Iraq and Afghanistan have required us to actually deploy new equipment or extreme modifications to equipment such as up armoring the equipment in order to meet the requirements and deal with the threats on the battlefield.

Having said that, the question of base equipping, I think what is evolving, as you have been briefed on, is the recognition that the Reserve unit and the National Guard units do now have an operational role mission and not just a strategic role mission. It's clear in a fielding program for new equipment that you want to equip the forces that are most likely to deploy first, and so that would typically be the active program. The requirement that we face in reflecting the change thinking about the role of the National Guard is that when you scope the acquisition program for new equipment you need to scope it to take into account this evolving role of the National Guard, rather than saying we're only going to equip the active component forces. You really need to size the complete acquisition program to reflect the role that you expect the Reserve and the National Guard units to play.

To an extent, if you look at the profile of the active component forces, as well as the Reserve and National Guard, you'll find that almost none of the units are equipped and while their in CONUS are equipped for the fight that they will be in in Iraq and Afghanistan. Virtually, all of that equipment is rotated into theater. We have training sets available only in the U.S. for the deploying units of the types that'll be operating in Theater, and then they pick up the equipment and train on additional equipment in Kuwait typically before they deploy into Iraq.

So, that environment is one that, I think, for the foreseeable future of deployments under GWOT we're going to have to continue to address.

The bigger strategic question is the extent to which, with this evolving role for the Reserves and the National Guard, we incorporate in our overall acquisition program the equipping requirements for them.

MR. THOMPSON: It sense – I've heard this several times with various persons who have testified that your first – in terms of priority thinking, that you're – make sure that I'm thinking right, here – that you – the first priority is deploying forces?

MR. BELL: The first priority is, actually, the forces already deployed.

MR. THOMPSON: Okay. And then those preparing for deploy –

MR. BELL: Then those that are imminently deploying and those preparing to deploy.

MR. THOMPSON: And so the forces standing down in CONUS are at a lower priority. Am I correct?

MR. BELL: That's correct.

MR. THOMPSON: Okay, does that – how does that fit with DOD's declaration that homeland defense is our number one priority when, in fact, the thinking is that it's maybe third?

MR. BELL: To the extent that the mission assigned, coming through Homeland Security and validated by NORTHCOM, is given a high priority, the equipping of those units for that mission that are tasked with those missions, will reflect that. We're in fact in the process now, in certain areas, of equipping units specifically because of a higher priority that has been assigned on certain Homeland Security missions.

MR. THOMPSON: I would – as you get your data call on the current equipment status, I would recommend that you try to get some kind of – some data that says how operationally ready that equipment is. Looking at the two Army National Guard motor pools in my communities, I'm not too sure they would start when they are needed. I'm not too sure how old they are – might even be older than me, some of them, and that's pretty ancient.

But I would suggest that you also – there seems to me, at least some of our testimony as (says ?) – particularly I know that General Blum has indicated that there really isn't a crisis for equipment to support domestic missions because we have the equipment. But just based upon what my Missouri eyes are seeing, I'm not too sure that what he counts in numbers can actually function, and I would recommend that as you start getting your data calls that you tried to do a quality assessment on the equipment that's in inventory in CONUS.

MR. BELL: The Defense Readiness Reporting System actually reports on the condition of that equipment, and its availability for full mission tasking. Whether there are individual cases, as you point out and I certainly wouldn't argue with that, where they have unit equipment on hand but it is not – it is not fully serviceable, that should be reflected in the Defense Reporting System.

MR. PUNARO: Any other commissioners that haven't asked a question yet have any before we – see none.

Secretary Patterson, let me pick up on this issue of cost again and take advantage of your tremendous expertise and that of your good officers. And, these maybe things you want to come back for the record, but let me just – and you've sensed some kind of – not frustration but we've had a little bit of difficulties sort of getting good data on the numbers or consistent data on the numbers of the cost when it comes to Reserve personnel and active duty personnel and I'm sure the Department struggles with these as well.

We all agree, from a policy standpoint, that when a Guard and Reserve are mobilized, they ought to be paid the same as their active duty personnel and they are. So, those costs are relatively the same if you talk about paying allowances.

Now, I believe, however, when you're trying to analyze the cost differential between what it costs to have an insurance policy in the Guard and Reserve and what it costs to have that same capability on fulltime active duty, the fully burdened costs need to be looked at. And, so when you're doing your cost analysis, the Department would not, I believe, look at – for example, let's take an active duty infantry soldier that retires at the end of 20 years, and let's take a Guard or Reserve infantry soldier that retires after 20 years. The active duty person begins drawing that retirement immediately. That's why you pay into the accrual funding accounts every year a certain amount of money based on the actuarial determination of various categories of people at various levels when they retire. And they calculate how much money you have to accrue so that it's not an unfunded liability of the federal government.

However, that Guard or Reserve personnel that earns a 20 year retirement – let's say don't drill anymore, so it's apples to apples – they start drawing their retirement at age 60 and they draw a much – and let's say their typically – a typical career in the Reserves at 20 would be three or four years on active duty and maybe they get mobilized a couple of times during that career for a year, a year and a half. So they're talking a total of maybe five to seven years active duty, the rest of it reserve time. They aren't going to draw anywhere near the same retirement as that soldier that served on active duty and they should. So, how do you take into account the accrual funding for retirement between those two, because clearly they shouldn't be the same, correct?

MR. PATTERSON: I think you're correct with that. They should not be the same. There's a – if you just simply, as you say, compared the total days of active duty, one versus the other, and that effectively is what we base our retirement logic on – that clearly the active duty has spent more days than the reservist. The exact amount – and I think where you're going should the guardsmen and reservists have the ability to retire at a lower age, we haven't specifically done the costing of that, but if that's something that you think is –

MR. PUNARO: Actually, that's not where I'm going. I'm trying to get at this – we've heard from certain personnel – I'm not going to say who, because we haven't done the detailed analysis. But, there are those in the analytical community, perhaps even the Department of Defense, that are, in my judgment, incorrectly suggesting that the Guard and Reserve are as expensive as the active military, even more so in certain cases. So even when you're on active duty, I'm suggesting that, for example, the – you said that you should not apply the same fully burdened cost to a mobilized Guard or Reserve person that you should to an active duty person, specifically in retirement accrual, because the retirement's going to be much less, correct?

MR. PATTERSON: That's correct. In fact, the –

MR. PUNARO: Yes, go ahead.

MR. PATTERSON: – the percentage difference is 26.5 percent for the active duty, fulltime rate, and 17.5 percent for the Guard and Reserve.

MR. PUNARO: Right. What about the cost of family housing? We know that our Guard and Reserve personnel do not live in military family housing on military bases. And, we know we've invested billions and billions of dollars – I think new family housing, we average maybe \$3 to \$4 billion a year. Each year we build new housing, not to mention sustaining the housing that's already there. None of those costs should be – some of that is put in the fully burdened cost of an active duty military. Is it not?

MR. PATTERSON: That's correct, in fact –

MR. PUNARO: But it's not put in the Guard and Reserve, correct?

MR. PATTERSON: No, it is not – it's – and let me explain why. This year, '08, our MILCON for family housing is 2.933 billion. That doesn't include ONM. The reservists and guardsmen who is called to extended active duty will the same opportunity to be part of the base community – have base housing. If base housing is not available, then they will have basic allowance for housing authorized for them. So, again, when you mobilize for an extended period the guardsmen or the reservists, then the benefits begin to even out.

MR. PUNARO: Right, but – yes, they get their basic allowance for quarters, just like anybody else. It's a nominal entitlement that the active duty – but the point is – it's nowhere near – in other words, they aren't going to live in – in theory, yes, if they wanted to, in a period of a year, move from their hometown which many of them are nowhere near a military installation – I mean I think to suggest somehow that the Guard families and Reserve families are going to move to Fort Bragg to move in the military family housing – you're not suggesting that, are you?

MR. PATTERSON: No, I am not. In fact –

MR. PUNARO: Okay, so they are not going to be living in this \$3 to \$4 billion a year of new family housing we built for the active duty military, nor taking advantage of the operations and maintenance funds, and the hundreds of millions that we pay to sustain that housing, correct?

MR. PATTERSON: That's correct.

MR. PUNARO: So that's not a burdened cost that ought to be applied to a Guard and Reserve personnel, is it?

MR. PATTERSON: I don't believe it should be and I don't believe it is.

MR. PUNARO: Right, correct. So there is another differential there that even though they're paid the same in paying allowances, that fully burdened – now, what about – how many Guard and Reserve personnel, when they're mobilized, send their kids to the DOD dependent school system?

MR. PATTERSON: Zero to few.

MR. PUNARO: Correct. And that runs us about, what, \$2 billion dollars a year?

MR. PATTERSON: Roughly.

MR. PUNARO: Roughly. And, that fully burdened cost is applied to the cost of an active duty military soldiers –

MR. PATTERSON: Correct. That's correct.

MR. PUNARO: Correct. And, it should not be applied to the Guard and Reserve?

MR. PATTERSON: It should not. It is not.

MR. PUNARO: It is not. So, again, they should be paid the same paying allowances, but what my point is that – not to you but to those analysts that somehow are suggesting that there isn't a differential between the cost of an active duty person and a Guard and Reserve – even when they're mobilized, it's not correct, because you've got these other costs that should not be attributable to –

MR. PATTERSON: Yes, I see your point and –

MR. PUNARO: And, by the way, there's a whole another long list, if you'd like me to kind of tick them off, I will. But maybe – maybe you could provide for the record those things that are in the fully burdened cost of an active duty personnel that would not be in the fully burdened cost of a Guard and Reserve, even when they're mobilized.

MR. PATTERSON: We can do that – (inaudible).

MR. PUNARO: And certainly you wouldn't – does the healthcare, the accrual cost of healthcare – is it the same for both an active duty and a Guard and Reserve personnel?

MR. PATTERSON: My understanding is that it is, yes, when they're mobilized.

MR. PUNARO: When they're mobilized?

MR. PATTERSON: When they're mobilized

MR. PUNARO: But over the life you aren't going to be accruing the same thing?

MR. PATTERSON: Now, the accrual percentage, as I just said, is different.

MR. PUNARO: Yes. For the retirement?

MR. PATTERSON: Retirement.

MR. PUNARO: But, also you wouldn't – I don't know how – actually, that's one where we ought to puzzle on that when together. I'm not sure exactly how you would do that because if you're talking, for example, track (there ?) for liable, Patty's the expert on this. If you're starting to draw it at age 60 or age 65, you're going to be paying the same as it's paid for an active duty military. So, I mean, the costs are going to be the same. So that – but again, maybe they don't start drawing it until 30 or 40 years later. So you certainly don't have to accrue the same kind of cost for their healthcare that you would for the soldier that retired at 20 years and the 20 year Guard and Reserve personnel that retired at age 60, correct?

MR. PATTERSON: My understanding is that, beginning in October, that Tricare for Life will, in fact, be implemented and that, mobilized or not, you will have the opportunity to participate in that program.

MR. PUNARO: As a drilling reservist?

MR. PATTERSON: That's correct.

MR. PUNARO: So, that might be a cost thing we need to look at in terms of it's kind of going in the other way a little bit.

MR. PATTERSON: Yes, sir.

MR. PUNARO: Can you think of any other cost that would be attributed to an active duty personnel that would not be to the Guard or Reserve in terms of these kind of fully burdened costs? We're trying to get the GAO – David Walker – they did that similar study on what they consider to be the fully burdened cost of an active duty person – we're trying to get them to do an apples to apples on the Guard and Reserve, and they're finding and even the GAO is finding it very, very difficult to do analytically, so –

MR. PATTERSON: We've done an assessment where we've basically looked at the things that are – matter to us in terms of what costs go into the burdened for both active – and we will provide a cleaned up version of that so that it makes sense.

MR. PUNARO: Right. And I think, Secretary Bell – what you've said on the equipment, they are getting the same equipment, so that cost is the same. So, there's no additional cost, but there's no decreased cost either, so –

MR. BELL: When deployed. Yes.

MR. PUNARO: When deployed, right. Okay. Thank you very much. I think, Commissioner McKinnon, did you have any additional questions or you –

MR. MCKINNON: We don't have enough time, but I did have one thing – (off mike).

MR. BELL: We have several challenges in that area. One part of it is, as you pointed out, a consolidating base of people participating in each of the sectors. The second thing is that, whereas the U.S government at one point in time was a significant component of demand for a number of industries, it either no longer is or it just hasn't been –for example, in the microchip business, the sum total of all of our requirements for microchips is such a small percentage of the overall business that to the extent that we require custom chips. It takes us into a whole new round of production.

The second part of the problem is because of the surging requirements we have for a number of specialized items in the industrial base, we have been for some time bumping up against capacity requirements here within the domestic industrial base. As you know, there've been a number of hearings and we have extensive processes related to the Berry Amendment and, in some cases, not only because of a raw materials lack of availability in this country but, actually, because of a manufacturing capacity limitation we're running into this.

We are in fact, right now, working a number of issues as we look at the total DOD requirements going forward over the next 12 months. We're actively working on a number of issues because the industrial base, on the one hand where it may be adequate in some (time ?), it doesn't have either the capacity or the interest to surge to meet requirements that are somewhat short-lived. And, this is typical of the pattern in the dynamics we face in deployed force engagement, is that we have surge requirements, such as ballistic steel armor, as you know, when we started up armoring Humvees. So these are challenges and I think we have to think very carefully and very strategically going forward about how we maintain the industrial base we're going to need.

Right now, we're concerned about just sheer availability, the bigger question of the economics of competitive sources of material we need to address strategically.

MR. MCKINNON: (Off mike) – talking about. What effect does that have on national security down the road when you're farming out to foreign countries who may not have a sympathetic view to whatever our endeavors are?

MR. BELL: Well, I think this is the major challenge. We have under the War Powers Act – as you know – we have the authority to require industries to support materials that we need if they have the capability to convert their production into those uses. If they don't have the capability, then we have exactly the problem you're pointing out. There are a significant number of industries, as you know, over the last 25 years, last

50 years, that have shifted offshore so that we don't have robust manufacturing capabilities in this country and, to the extent we do, they are so finely tuned against demand, that they really are not interested in maintaining the surge capability for the DOD requirement.

MR. PUNARO: Okay. Commissioner Dawson to close out.

MR. DAWSON: Mr. Patterson, in the course of the Chairman's energetic examination of the question of the relative cost, he may have missed your rather emphatic headshake negatively suggesting that you disagreed with these analysts he was referring to. So, I just wanted to get on the record to make sure that you've made that gesture and to get you to kind of characterize whether those people are misguided and mistaken in their belief that the costs are comparable. Would that be – misguided and mistaken putting words in your mouth or would that be things that you would agree with?

MR. PATTERSON: Well, at the risk of pandering to the Chairman –

MR. DAWSON: Go ahead, he likes that. (Laughter.)

MR. PATTERSON: I think that – and I'll stick with my earlier statement that I can give you a fully burdened cost in a wide range, depending on the assumptions that I use to begin with. And, it's one of the reasons why we try to be very careful about how we establish the baseline individual and what each of them cost.

I would suggest to you that you have to be very careful about how the analysts portray their going in position and I don't suggest to you that they purposefully skew the data, but – we're all humans. We all have particular points of view and biases and I'm afraid that, at the risk of causing trouble behind me because I have analysts behind me, I will tell you that the analysis begins with assumptions, and the results are very much determined by how you go into it. And – so I would, I would just kind of leave it at that and some of the outside analysts and analysis are pretty much like –

MR. DAWSON: But, we're just looking for objective facts, so we're not looking for subjective – and, by the way, I also – while you offered and Chairman didn't accept, I would like to take you up and your offer, if you don't mind and if it's not a huge burden, to try to examine the question of what it would cost to reduce the retirement date from 60 to 55. If it proves to be a burden to the folks behind you, make sure they speak up and tell us, but I'd be curious –

MR. PATTERSON: I think they're after the challenge.

MR. DAWSON: Okay, I'm sure they are. Thank you.

MR. PATTERSON: I would like to say that – just to your point, Mr. Chairman, that the healthcare accrual for an active duty individual is \$6,000 and for a reservist it's 3,500.

MR. PUNARO: Great. Thank you and I want to thank both our witnesses here this morning for their extremely helpful, informative, and straightforward testimony, also for their great service to the nation in uniform. Both of these individuals have served our country in uniform in times of stress and had distinguished careers there. They both have had distinguished careers in the private sector and now continuing with distinguished careers back in government. And, we're glad people like yourselves are willing to serve in the government in these very, very difficult times.

We thank you again for your testimony. Again, express our appreciation to the Department's leadership for the continuing cooperation we receive and also, again, to Secretary Gates and General Pace for their very timely and very decisive and very positive action on all these matters relating to the Reserve component. So we'll stand adjourned for a few minutes until we start our next panel.

Thank you, again.

(End of panel.)